

# European Portfolio Strategist

## CDS-Adjusted Dividends — Adding Growth to Safety

- **Equities yield more than bonds** — The repression of bond yields through policy action and investor fear has made equities yield consistently more than bonds.
- **Equities yield more than credit** — By the end of 2012 dividend yields had gone above BBB credit as well. The debt/equity arb is even more compelling.
- **Capital arbitrage opportunities** — We screen for those companies that can borrow at a lower coupon than their own dividend yield.
- **CDS adjusted dividends** — But that doesn't provide much of a safety net. For that we use a companies CDS to adjust the yield. We update that screen.
- **Adding growth and cash cover to CDS** — To increase the safety net further we add cash flow cover and growth to screen. Capex heavy like Oil and Telcos fall out.
- **Defensives and Industrials dominate** — Companies such as ABB, Sanofi, Telenor and Imperial Tobacco feature in both the credit screen and growth CDS-DY screen.

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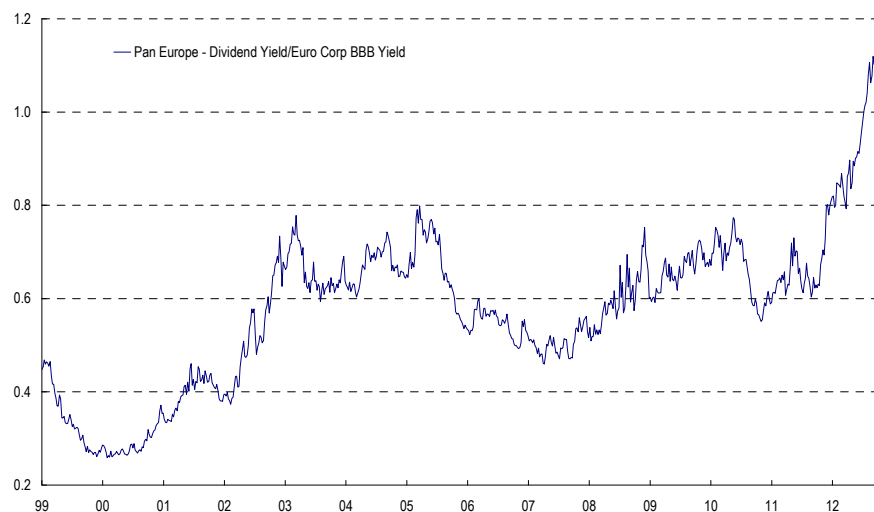
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Figure 1. European Equities Yield More Than Credit



Source: Datastream & Citi Research

[31st Jan — The Real Deal: Bull Market](#)

[24th Jan — Rally Like it's 2009](#)

[21st Jan — Normalisation](#)

[17th Jan — The Citi Income Report](#)

[10th Jan — The Seven Rs](#)

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## CDS-Adj Divis — Adding Growth to Safety

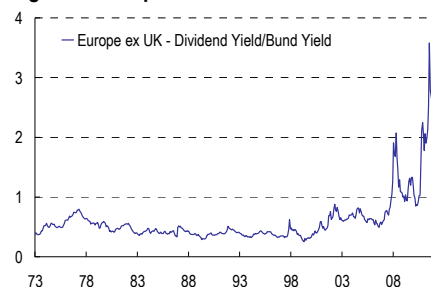
Safety first. Return of capital. Not return on capital. That was the immediate consequence of the financial crisis. However, monetary policy is increasing the confidence in recovery and the avoidance of disaster while at the same time holding down the yields on the safest assets. This has pushed investors up the risk spectrum in search of higher coupons. This week we look at this trade in the equity market as we move from safety first to greater risk appetite and what that means for yield seeking investors.

### Price of risk

One of the clearest measures of the relative price of safety compared to the price of risk is the relationship between government bond yields and dividend yields. In Europe dividend yields are still more than double bund yields. The picture is similar, if not as extreme, in the UK.

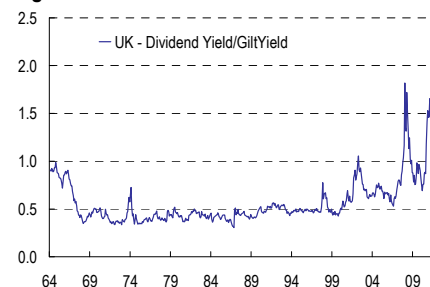
The yield gap is still at multi decades wides

Figure 2. Europe ex UK — DYR



Source: Datastream & Citi Research

Figure 3. UK — DYR



Source: Datastream & Citi Research

This of course doesn't in itself mean that equities are absolutely cheap (although we think they are) but it does clearly highlight the relative attractions.

Dividend yields crossed over credit yields recently

Figure 4. Pan Europe — DYR (vs BBB Corporate Bonds)

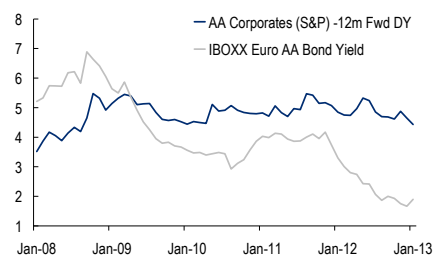


Source: Datastream & Citi Research

The other way of highlighting the relative attractions of equities is to again look at the relative yield on equities but this time compare it to corporate credit. Here very roughly we are looking at the two different funding sources for a company, the equity market and the credit market.

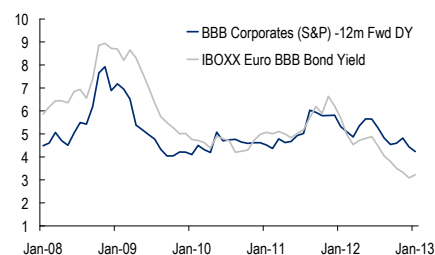
Towards the end of 2012 we saw the latest in the run of yield crossovers for equities. Dividend yields first went above base rates, then bonds and finally BBB credit. Only dividend yields above PEs is left. The rally in the equity market over the last three months and a slight sell off in credit has seen this crossover uncross but as Figure 4 shows the equity market has not offered this sort of yield premium to credit at any time over the last 15 years (bar the last 2 months).

Figure 5. AA Corporates — DY vs IBOXX BY



Source: Bloomberg, Datastream & Citi Research

Figure 6. BBB Corporates — DY vs IBOXX BY



Source: Bloomberg, Datastream & Citi Research

We now look at the dividend yield and credit yield on matching ratings, so compare AA rated companies and then BBB rated companies. As Figure 5 & Figure 6 show on this credit rating matched basis, dividend yields are above credit yields in both cases.

So the equity market offers clear relative value compared to credit and bonds. The question is how should investors take advantage of this relative value opportunity?

## Dividend yields above own credit yield

The first way of looking at this is through those companies that have a dividends yield above their own debt.

Figure 7. Dividend Yield above own Credit Yield Screen

ABB	ABBN.VX	Danone	DANO.PA	Rio Tinto	RIO.L
Ahold Kon.	AHLN.AS	Deutsche Post	DPWGN.DE	Roche	ROG.VX
Air Liquide	AIRP.PA	Deutsche Telekom	DTEGN.DE	Royal Dutch Shell A	RDSA.L
Akzo Nobel	AKZO.AS	E.ON	EONGN.DE	RWE	RWEG.DE
Alstom	ALSO.PA	EADS	EAD.PA	SABMiller	SAB.L
Anglo American	AAL.L	Enel	ENEL.MI	Sanofi	SASY.PA
AB Inbev	ABI.BR	ENI	ENI.MI	Schneider Electric	SCHN.PA
AstraZeneca	AZN.L	Ericsson B	ERICB.ST	Siemens	SIEGN.DE
Atlas Copco A	ATCOA.ST	France Telecom	FTE.PA	Statoil	STL.OL
BAE Systems	BAES.L	Imperial Tobacco	IMT.L	Telefonica	TEF.MC
BASF	BASFN.DE	Linde	LING.DE	Telenor	TEL.OL
Bayer	BAYGN.DE	LVMH	LVMH.PA	Tesco	TSCO.L
BHP Billiton	BLT.L	Nestle R	NESN.VX	Total	TOTF.PA
BMW	BMWG.DE	Novartis R	NOVN.VX	Unilever Certs.	UNC.AS
BP	BP.L	Philips Electronics	PHG.AS		
Centrica	CNA.L	PPR	PRTP.PA		
Compass Group	CPG.L	Reed Elsevier	ELSN.AS		
Daimler	DAIGN.DE	Repsol Ypf	REP.MC		

Source: Yield Book, Datastream & Citi Research

This produces a value screen with lots of low PE, high DY stocks, although not all as it also includes stocks such as Nestle and SABMiller. We can see clear attractions in these companies. Most simply they can raise debt, buy back shares and make a cash saving. However whatever the value attractions of this screen, it takes no account of the risks to that dividend. If investors are seeking yield that they can no longer get from bonds they are much more likely to buy safe yields. So how can we get safer yields?

## CDS Adjusted Dividends

One way we have looked at this is to use what the credit market says about the companies' safety. We use the CDS market as a measure for this. We then combine the CDS with the dividend yield to rank higher yielding companies.

Figure 8. CDS Adjusted Dividend Screen

Stock	RIC	Mkt Cap	Low CDS	Trailing DY	CDS Dividend Adj Score
Swisscom R	SCMN.VX	7282	52	7.7	14.8
TeliaSonera	TLSN.ST	11742	51	6.2	12.1
TDC	TDC.CO	2890	89	10.6	12.0
Total	TOTF.PA	88668	49	5.8	12.0
Novartis R	NOVN.VX	135753	31	3.7	12.0
Fortum	FUM1V.HE	6027	71	7.2	10.1
E.On	EONGn.DE	25623	86	8.6	10.0
GlaxoSmithKline	GSK.L	83636	55	5.1	9.2
RSA Insurance Group	RSA.L	5448	79	7.0	8.9
AstraZeneca	AZN.L	44555	68	5.9	8.7
Elisa	ELI1V.HE	2621	89	7.4	8.3
National Grid	NG.L	30434	70	5.8	8.2
Statoil	STL.OL	20966	56	4.5	8.0
Telenor	TEL.OL	11644	53	4.1	7.9
Centrica	CNA.L	21074	60	4.5	7.5
British American Tobacco	BATS.L	77632	54	4.0	7.4
Muenchener Rueckver	MUVGn.DE	21788	63	4.6	7.3
Deutsche Post	DPWGn.DE	15578	55	4.0	7.3
BP	BP.L	103404	62	4.5	7.2
Vodafone Group	VOD.L	99458	80	5.7	7.1
Siemens	SIEGn.DE	67246	57	3.7	6.5
Morrison (Wm) Supermarkets	MRW.L	6970	70	4.4	6.3
SES Fdr	SESFd.PA	7186	64	3.9	6.1
Svenska Handbkn	SHBa.ST	14787	65	3.8	5.8
Electrolux B	ELUXb.ST	4580	69	3.9	5.6

Source: Bloomberg, Datastream & Citi Research

We first used this analysis in October 2011 and we continue to view this as a sensible way for absolute return investors to get exposure to the safer, higher yielding equities.

## Adding growth and cash flow

However, this screen is purposefully simple in that it adds nothing about growth in the dividend or the cash generation capability of the company to pay the dividend. Given we expect a pick up in global growth but still limited turn around in Europe we believe the market will value those companies that can grow and return the money to shareholders.

Figure 9. CDS Adjusted Dividend Scores with Growth and FCF Cover

Stock	RIC	Mkt Cap	<Median (115)		>Median (3%)		>4%		>0
			Low CDS	Trailing DY	CDS Adj Div Score	2yr Ann. Div Growth	Average 2012-2014 FCF Less Average	2012 - 2014 DY	
Unilever Certs.	UNc.AS	46878	30	3.3	10.9	7.9			2.5
Nestle R	NESN.VX	166726	31	3.1	9.9	7.9			0.3
Roche	ROG.VX	114484	40	3.4	8.4	6.7			2.8
Telenor	TEL.OL	11644	53	4.1	7.9	10.8			0.4
ABB	ABBN.VX	36685	43	3.3	7.8	4.2			3.3
Sanofi	SASY.PA	86598	49	3.7	7.5	13.5			4.5
British American Tobacco	BATS.L	77632	54	4	7.4	6.7			3.6
Siemens	SIEGn.DE	67246	57	3.7	6.5	8.7			3.1
SES Fdr	SESFd.PA	7186	64	3.9	6.1	10			0.9
Electrolux B	ELUXb.ST	4580	69	3.9	5.6	10.4			1
SKF B	SKFb.ST	6832	63	3.5	5.6	4.8			0.7
Atlas Copco A	ATCOa.ST	13533	55	3	5.5	8.7			2.1
Koninklijke DSM	DSMN.AS	7496	63	3.3	5.2	5.2			1.5
Scania B	SCVb.ST	4631	71	3.6	5.2	5.6			2.4
British Sky Broadcasting	BSY.L	9345	70	3.3	4.7	8.7			3.3
Imperial Tobacco Gp.	IMT.L	27057	101	4.5	4.5	8.1			2.4
Pearson	PERSON.L	11394	82	3.6	4.4	4.5			3.2
BT Group	BT.L	23675	95	3.5	3.7	12.9			5.5
Schneider Electric	SCHN.PA	30787	89	3	3.4	5.4			2.4
Smiths Group	SMIN.L	5619	95	3.1	3.3	4.7			3.7

Source: Bloomberg, Datastream & Citi Research

Here we screen for those companies with a CDS of less than 115, the European median level. This slightly relaxes the safety requirement compared to the previous screen. We then look for companies with a higher than median DY (above 3%). To bring growth and safety into this we screen for forecast two year annualized dividend growth of 4% or more combined with a dividend that is forecast to be covered by FCF over the 2012-2014 period.

Compared to the previous CDS screen this does two things. First it reduces the number of capex heavy companies. Oils, Utilities and Telecoms are removed from the list. Second they are replaced by more Industrial companies. This also has the impact of reducing the direct European exposure and makes the list more international but also more cyclical. Given the better growth in the rest of the world and the ongoing risks in Europe we think that is a sensible outcome. What it has in common with the previous CDS screens are that it is tilted towards the non-Euro markets and the core of the Eurozone. This also helps reduce the re-denomination risk in stocks like this should the Eurozone crisis flare up again.

Figure 10 adds Financials. Here, we continue to look for stocks with a CDS below 115. We lower the DY threshold to 2.5%. All non-financial stocks have average FCF yields for 2012-14E above average DYs for the same period. Last, we screen for stocks with a high DY\*G score relative to their CDS. DY\*G is the product of current DY \* 2-year dividend CAGR. These stocks offer investors a combination of income, income growth and low risk. Credit Suisse, DNB, SEB, Swedbank and Swiss Re are the Financials which make the cut. Nordea, HSBC, Allianz and Munich Re just miss out with a DY\*G/CDS score of 0.30-0.32x. This income strategy has more in common with our overall barbell approach to equity markets.

Figure 10. CDS Adjusted DY\*G

Stock	RIC	Mkt Cap	Low CDS	Trailing DY	CDS Adj Div Score	2yr Ann. Div Growth	Average 2012-2014 FCF Less Average 2012 - 2014 DY	DY*G	DY*G/CDS
Sanofi	SASY.PA	86598	49	3.7	7.5	13.5	4.5	56	1.13
Credit Suisse R	CSGN.VX	26959	101	2.8	2.8	33.0		103	1.01
Telenor	TEL.OL	11644	53	4.1	7.9	10.8	0.4	48	0.91
Nestle R	NESN.VX	166726	31	3.1	9.9	7.9	0.3	28	0.90
Unilever Certs.	UNc.AS	46878	30	3.3	10.9	7.9	2.5	27	0.89
SES Fdr	SESFd.PA	7186	64	3.9	6.1	10.0	0.9	43	0.67
Siemens	SIEGn.DE	67246	57	3.7	6.5	8.7	3.1	37	0.65
Roche	ROG.VX	114484	40	3.4	8.4	6.7	2.8	26	0.64
Swedish Match	SWMA.ST	5691	71	2.7	3.9	12.1	1.8	39	0.56
British American Tobacco	BATS.L	77632	54	4.0	7.4	6.7	3.6	28	0.52
Compass Group	CPG.L	16474	47	2.8	6.0	8.4	1.6	24	0.51
Electrolux B	ELUXb.ST	4580	69	3.9	5.6	10.4	1.0	35	0.51
BT Group	BT.L	23675	95	3.5	3.7	12.9	5.5	46	0.49
Atlas Copco A	ATCOa.ST	13533	55	3.0	5.5	8.7	2.1	26	0.48
Thales	TCFP.PA	2522	98	2.9	3.0	13.6	5.7	44	0.45
DNB	DNB.OL	9402	80	2.6	3.3	12.5		34	0.42
British Sky Broadcasting	BSY.L	9345	70	3.3	4.7	8.7	3.3	29	0.41
SEB A	SEBa.ST	11385	96	2.7	2.9	9.8		39	0.41
Swedbank A	SWEDa.ST	15421	102	3.5	3.5	6.0		41	0.41
Swiss Re	SRENH.VX	18693	102	4.4	4.3	8.6		41	0.40
Novartis R	NOVN.VX	135753	31	3.7	12.0	2.5	4.3	12	0.39

Source: Bloomberg, Datastream & Citi Research

## Strategy outlook

The yield attractions of equities are well known. But investors seeking yield understandably want to avoid the risk of dividend cuts. Using CDS is one way to look for certainty. As growth becomes more imbedded we believe investors should add cash cover and dividend growth to their requirements. That increases the global, asset light nature of the companies that screen well.

## Market Outlook

Willem Buiter, our Chief Economist, and team expect another year of modest global growth in 2013. De-leveraging should cap growth. Policy action should (successfully, in our view) defuse systemic growth bombs. Despite macro risks, we have argued that the macro framework remains pretty certain and embedded. It consists of five elements: 1) de-leveraging, 2) lower growth, 3) divergent growth, 4) 0% policy rates, and 5) QE. It is this framework which gives us a world of low growth and low rates and is the basis for our ongoing preference for growth and income-biased strategies.

### Macro

<b>GDP</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
Euro zone	-0.5	-0.6	-0.4
UK	0.1	0.4	0.7
Global	2.5	2.6	3.2
US	2.2	1.9	3.1
Japan	2.0	1.3	1.2
<b>CPI</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
Euro zone	2.5	1.8	1.5
UK	2.8	2.9	2.3
Global	2.8	2.8	3.0
US	1.7	1.5	2.1
Japan	0.0	-0.3	1.9
<b>Interest Rates</b>	<b>1Q13E</b>	<b>3Q13E</b>	<b>4Q13E</b>
ECB	0.75	0.25	0.25
UK Base	0.50	0.50	0.50
US Fed Funds	0.25	0.25	0.25
Japan Call	0.10	0.10	0.10
<b>10Yr Yield</b>	<b>1Q13E</b>	<b>3Q13E</b>	<b>4Q13E</b>
Euro zone	1.55	1.75	1.50
UK	1.90	2.00	1.80
US	1.80	2.20	2.50
Japan	0.80	0.85	1.05
<b>Ex Rates</b>	<b>1Q13E</b>	<b>3Q13E</b>	<b>4Q13E</b>
US\$/€	1.35	1.32	1.32
US\$/£	1.60	1.61	1.61
€/£	0.84	0.82	0.82
Y/US\$	94	96	95
<b>End Year Targets</b>	<b>Now</b>	<b>End-13E</b>	<b>Return</b>
Stoxx	285	330	16
FTSE 100	6295	7000	11

Source: Datastream and Citi Research estimates

Modest global growth is the outcome in 2012, but investors have had to deal with Chinese hard landing fears, US stall speed concerns and ongoing uncertainty in the Euro Area. By end-1H13, no Chinese hard landing and no US fiscal cliff should contribute to a world of reduced macro risks. From Europe, Spain (and possibly Italy) in a funding program and getting safely beyond Italian elections could also bring some temporary stability. Lower macro risk in 2013 is one support of our re-rating case and should also present a better platform for corporates to be heard.

### 2014 looks better than 2013 for earnings

Modest nominal global GDP growth including a 2H13 pick-up in US growth and a pick-up in EPS-boosting M&A and buybacks could support modest single-digit earnings growth in 2013E. But, recession in the EA and near-record margins suggest that big earnings gains are unlikely. Citi's analysts expect 10-15% earnings growth in 2013E and 2014E. Our top-down base case is 5% & 10%, respectively. Ongoing downgrades to 2013E estimates likely to be modest.

### Equities look fair value to super-cheap

European equities look fair value on trailing P/E and price/book multiples, in-line with long-term averages. Balance sheet adjusted multiples (EV/EBITDA) suggest that shares are cheaper than fair value, as does the cyclically adjusted P/E for Europe (CAPE). Based on post-1980 data, current DY, P/E, price/book and CAPE multiples all suggest 10%+ compound returns over the next 10 years. While, in the absence of an earnings collapse, absolute valuations look supportive of further 2013 gains for European equities, it is relative valuations which continue to show equities as looking particularly cheap. In the UK, dividends have not looked this cheap vs UK gilts in the last 100 years. European equities are trading at record cheaps relative to investment grade credit.

### Sector Strategy

We continue to run a barbell strategy, with a preference for growth leaders in a low growth world & cheap (acceptable) risk. We also back restructuring and re-leveraging as key alpha drivers in 2013-14. We are currently net long Financials with an Overweight on Banks. Here, our analysts see improving capital, higher potential returns, restructuring and regulatory forbearance as supporting a positive stance. We are broadly Neutral on cyclicals, have a positive skew to defensive growth and are Underweight Utilities, Telecoms and Oil & Gas.

Figure 11. European Sector Strategy

#### Overweight

Banks  
Chemicals  
Food & Bev  
Healthcare  
Media  
Personal & Household Goods

#### Neutral

Autos  
Basic Resources  
Financial Services  
Industrial G&S  
Insurance  
Retail  
Technology  
Travel & Leisure

#### Underweight

Construction  
Oil & Gas  
Real Estate  
Telecoms  
Utilities

Source: Citi Research

# Changes to Most Favoured List

## Removing Johnson Matthey

- Following our Chemical analysts' downgrade of Johnson Matthey<sup>1</sup> (JMAT.L; £22.55;2), we remove the stock from the strategy most favoured list.
- Our most favoured stock list comprises of 13 stocks (Figure 12).

Figure 12. Most Favoured List

	RIC	Rating	Current Price	Target Price
ABInBev	ABI.BR	1	64.54	72.00
BNP Paribas	BNPP.PA	1	45.00	57.00
ITV	ITV.L	1	1.18	1.30
Barclays	BARC.L	1	2.96	4.00
Brit Am Tobacco	BATS.L	1	32.77	37.85
Danone	DANO.PA	1	50.44	57.00
B Sky B	BSY.L	1	8.16	9.50
Linde	LING.DE	1	129.75	150.00
Pernod-Ricard	PERP.PA	1	92.00	101.00
Richemont	CFR.VX	1	75.85	86.00
SABMiller	SAB.L	1	31.83	34.60
Fresenius SE	FREG.DE	1	89.59	111.90
Bayer	BAYGn.DE	1	70.01	75.00

Source: Citi Research

- This list comprises stocks in sectors we are Overweight. We review our strategy most favoured stock list when: 1) stock recommendations change, 2) sector recommendations change, 3) corporate action occurs.

<sup>1</sup> Johnson Matthey, Earnings momentum stalling as costs and end markets take their toll, Downgrade to Neutral, 4<sup>th</sup> February 2013

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## Valuation Tables

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Figure 13. Pan-European Sector Weightings & Returns

As at Close 05 Feb 13 Sector (No of Stocks)	Mkt Cap (Euros m)	% of Stoxx	Return Relative to Stoxx				Absolute Return			
			1m	3m	12m	Ytd	1m	3m	12m	Ytd
Oil & Gas (32)	507,636	8.8	-2	-7	-14	-1	-2	-2	-4	1
Chemicals (24)	298,339	5.2	1	2	8	-1	0	8	21	1
Basic Resources (29)	246,242	4.3	-6	-4	-24	-5	-7	1	-15	-3
Construction & Materials (21)	122,645	2.1	-3	2	-5	-3	-4	7	5	-1
Industrial G&S (105)	613,176	10.6	-1	0	1	-1	-1	5	13	2
Automobiles & Parts (14)	150,461	2.6	-1	7	-2	0	-1	12	9	2
Food & Beverage (28)	516,312	8.9	2	0	11	1	1	4	23	3
Personal & H'hold Goods (29)	343,863	6.0	0	0	5	0	0	5	17	2
Health Care (35)	654,968	11.3	2	0	8	2	1	5	20	4
Retail (24)	181,376	3.1	0	-2	3	-1	-1	3	15	2
Media (28)	138,489	2.4	0	1	6	-1	-1	6	18	1
Travel & Leisure (21)	80,336	1.4	2	5	14	2	2	10	27	5
Telecommunications (20)	272,008	4.7	0	-4	-12	0	-1	0	-2	2
Utilities (26)	230,019	4.0	-5	-11	-12	-6	-6	-6	-2	-4
Banks (46)	743,959	12.9	3	6	3	4	2	11	15	7
Insurance (33)	331,177	5.7	-2	1	7	-2	-3	6	20	1
Real Estate (29)	80,055	1.4	-4	-5	5	-5	-5	-1	17	-3
Financial Services (30)	82,179	1.4	3	6	5	3	2	11	17	5
Technology (26)	185,132	3.2	4	10	10	5	3	16	22	7
Stoxx - Pan Europe (600)	5,778,374	100.0	—	—	—	—	-1	5	12	2
Pan Euro - Large Cap	4,724,139	81.8	0	0	0	0	-1	5	11	2
Pan Euro - Mid Cap	735,718	12.7	0	0	1	0	-1	5	12	2
Pan Euro - Small Cap	318,517	5.5	0	1	0	1	0	5	12	3
Stoxx ex UK (418)	3,840,944	66.5	—	—	—	—	0	7	13	3
EuroStoxx - Eurozone (297)	2,564,350	44.4	—	—	—	—	-1	6	10	2

Source: Citi Research & DataStream

Figure 14. Pan-European Sector Relative Ratings

As at Close 05 Feb 13 Sector	P/E Relative to Stoxx				Yield Relative to Stoxx			
	2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
Oil & Gas	73	69	78	81	117	125	122	118
Chemicals	109	109	111	112	72	75	76	75
Basic Resources	65	114	98	91	80	86	83	84
Construction & Materials	99	109	107	103	101	98	101	101
Industrial Goods & Service	116	108	111	110	83	82	85	86
Automobiles & Parts	66	54	70	68	90	99	98	99
Food & Beverage	155	139	142	144	70	75	80	81
Personal & H'hold Goods	146	124	129	130	70	76	80	81
Health Care	107	102	110	111	91	97	96	97
Retail	117	114	119	124	92	95	95	93
Media	103	97	105	108	117	107	100	100
Travel & Leisure	144	146	129	121	72	72	70	71
Telecommunications	69	74	85	91	237	151	150	144
Utilities	77	70	89	96	193	189	176	167
Banks	99	134	87	82	89	98	102	107
Insurance	106	69	71	74	113	122	123	121
Real Estate	150	144	148	157	121	119	119	115
Financial Services	119	126	106	103	116	118	112	111
Technology	128	199	159	133	55	58	49	49
Stoxx - Pan Europe	100	100	100	100	100	100	100	100
Pan Euro - Large Cap	96	95	97	98	102	103	103	102
Pan Euro - Mid Cap	120	128	114	111	93	87	90	92
Pan Euro - Small Cap	129	153	118	111	87	86	85	86
Stoxx ex UK	103	104	101	100	102	98	99	99
EuroStoxx - Eurozone	95	98	95	94	110	102	103	102

Source: Citi Research & DataStream

Figure 15. Pan-European Sector Growth

As at Close 05 Feb 13 Sector	Earnings Growth %			Net Dividend Growth %		
	2012E	2013E	2014E	2012E	2013E	2014E
Oil & Gas	6.2	-3.1	6.4	10.1	1.5	4.3
Chemicals	-0.3	6.9	11.1	8.9	4.5	7.2
Basic Resources	-43.0	28.1	19.8	10.7	0.2	9.9
Construction & Materials	-9.9	12.0	15.3	1.1	6.1	8.2
Industrial Goods & Services	6.7	6.7	13.5	2.7	7.0	8.8
Automobiles & Parts	20.9	-15.3	15.6	14.8	2.6	8.1
Food & Beverage	10.6	7.0	10.5	11.8	9.2	10.0
Personal & H'hold Goods	16.5	5.9	10.3	13.1	9.0	9.6
Health Care	3.8	1.7	10.9	10.2	2.3	9.8
Retail	1.5	5.5	7.1	7.3	2.8	5.7
Media	4.7	1.7	8.6	-5.0	-3.3	7.9
Travel & Leisure	-2.1	23.5	19.3	3.5	-0.4	10.2
Telecommunications	-6.8	-5.3	4.4	-33.8	2.6	3.5
Utilities	8.9	-13.9	3.7	1.2	-3.7	2.6
Banks	-26.3	69.1	18.3	13.1	7.6	14.2
Insurance	52.5	6.7	7.1	11.5	4.1	6.4
Real Estate	3.4	6.4	5.4	2.5	3.3	4.4
Financial Services	-6.5	30.7	15.1	5.6	-2.4	7.0
Technology	-36.1	37.2	33.5	7.8	-12.0	8.4
Sbxx - Pan Europe	-0.7	9.5	11.7	3.6	3.4	8.0
Pan Euro - Large Cap	0.9	6.6	10.9	4.6	3.0	7.5
Pan Euro - Mid Cap	-6.9	22.7	15.1	-3.0	6.3	10.9
Pan Euro - Small Cap	-16.6	42.1	18.8	2.0	2.3	10.0
Sbxx ex UK	-1.7	13.0	12.9	0.1	4.4	8.3
EuroSbxx - Eurozone	-4.0	13.7	12.7	-3.9	3.9	7.0

Source: Citi Research & DataStream

Figure 16. Pan-European Sector Ratings

As at Close 05 Feb 13 Sector	Price/Earnings				Net Dividend Yield			
	2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
Oil & Gas	9.7	9.2	9.5	8.9	4.12	4.54	4.60	4.80
Chemicals	14.4	14.5	13.6	12.2	2.52	2.74	2.86	3.07
Basic Resources	8.7	15.2	11.9	9.9	2.81	3.12	3.12	3.43
Construction & Materials	13.1	14.6	13.0	11.3	3.54	3.58	3.80	4.11
Industrial Goods & Services	15.4	14.5	13.6	11.9	2.92	3.00	3.21	3.49
Automobiles & Parts	8.7	7.2	8.5	7.4	3.15	3.61	3.71	4.01
Food & Beverage	20.5	18.5	17.3	15.7	2.46	2.75	3.00	3.30
Personal & H'hold Goods	19.3	16.6	15.7	14.2	2.45	2.77	3.02	3.31
Health Care	14.1	13.6	13.4	12.1	3.19	3.52	3.60	3.96
Retail	15.5	15.3	14.5	13.5	3.23	3.47	3.57	3.77
Media	13.6	13.0	12.8	11.8	4.11	3.90	3.77	4.07
Travel & Leisure	19.1	19.5	15.8	13.2	2.55	2.64	2.63	2.90
Telecommunications	9.1	9.8	10.4	9.9	8.34	5.52	5.66	5.86
Utilities	10.2	9.3	10.8	10.4	6.80	6.88	6.63	6.80
Banks	13.2	17.9	10.6	8.9	3.14	3.56	3.83	4.37
Insurance	14.1	9.2	8.7	8.1	3.98	4.43	4.62	4.91
Real Estate	19.8	19.2	18.0	17.1	4.25	4.35	4.50	4.69
Financial Services	15.8	16.9	12.9	11.2	4.09	4.31	4.21	4.50
Technology	17.0	26.5	19.3	14.5	1.95	2.10	1.85	2.01
Sbxx - Pan Europe	13.3	13.3	12.2	10.9	3.52	3.64	3.76	4.07
Pan Euro - Large Cap	12.7	12.6	11.8	10.7	3.59	3.75	3.86	4.16
Pan Euro - Mid Cap	15.9	17.0	13.9	12.1	3.27	3.17	3.37	3.74
Pan Euro - Small Cap	17.0	20.4	14.4	12.1	3.05	3.12	3.19	3.51
Sbxx ex UK	13.7	13.9	12.3	10.9	3.57	3.58	3.73	4.04
EuroSbxx - Eurozone	12.6	13.1	11.6	10.2	3.87	3.72	3.86	4.13

Source: Citi Research & DataStream

Figure 17. Pan-European Country Weightings & Returns

	Mkt Cap (Euros m)	% of Stoxx	Relative Return to Stoxx*				Absolute Return*			
			1m	3m	12m	YTD	1m	3m	12m	YTD
Austria	25,109	0.4	-4	2	-6	-3	-5	6	5	-1
Belgium	87,937	1.5	-1	0	16	-2	-2	4	29	0
Denmark	114,297	2.0	9	14	19	10	8	18	32	12
Finland	82,463	1.4	1	7	-2	3	0	11	10	5
France	837,142	14.5	-1	1	1	-1	-2	5	12	0
Germany	750,712	13.0	-1	-1	2	-2	-2	3	13	0
Greece	6,319	0.1	14	16	-12	14	13	21	-3	16
Ireland	39,232	0.7	-4	-6	-10	-4	-5	-2	0	-2
Italy	213,368	3.7	-2	0	-7	-1	-3	4	3	1
Netherlands	232,235	4.0	1	1	5	1	0	5	17	3
Norway	89,101	1.5	1	-2	3	1	0	2	14	3
Portugal	16,443	0.3	3	7	0	4	2	11	12	6
Spain	254,597	4.4	-3	1	-12	-2	-4	5	-2	0
Sweden	287,634	5.0	4	6	6	4	3	10	17	6
Switzerland	785,562	13.6	4	4	10	5	3	8	22	6
UK	1,937,430	33.6	-2	-4	-4	-2	-3	0	7	0
Stoxx - Pan Europe	5,759,580	100								

Source: Citi Research & DataStream. \*Note: Country returns use MSCI indices.

Figure 18. Pan-European Country Relative Ratings

As at Close 05 Feb 13 Country	Price/Earnings				Net Dividend Yield			
	2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
Austria	244	99	96	89	75	79	92	97
Belgium	136	131	132	130	75	77	78	81
Denmark	197	153	142	129	40	47	56	64
Finland	105	158	124	109	132	131	100	97
France	92	94	91	92	105	104	107	109
Germany	96	83	92	93	91	94	89	88
Greece	191	-1640	365	112	113	108	75	84
Ireland	142	149	130	126	51	52	53	51
Italy	88	85	85	83	108	105	110	112
Netherlands	120	103	97	95	79	74	75	80
Norway	99	90	89	88	126	117	123	124
Portugal	107	108	101	92	169	137	134	130
Spain	73	160	95	96	226	147	168	145
Sweden	114	111	116	117	92	103	105	104
Switzerland	125	121	117	116	84	89	89	93
UK	94	93	98	100	97	104	102	101
EuroStoxx - Eurozone	95	98	95	94	110	102	103	102
Stoxx ex UK - Europe ex UK	103	104	101	100	102	98	99	99
Stoxx - Pan Europe	100	100	100	100	100	100	100	100

Source: Citi Research & DataStream

Figure 19. Pan-European Country Growth

Country	Earnings Growth %			Dividend Growth %		
	2012E	2013E	2014E	2012E	2013E	2014E
Austria	146.0	12.4	20.6	8.2	21.6	13.8
Belgium	3.0	9.2	13.6	6.4	4.7	11.4
Denmark	28.1	17.8	22.5	21.7	24.4	22.7
Finland	-33.9	39.3	27.4	2.4	-20.5	4.4
France	-2.9	12.4	11.5	3.5	5.6	10.3
Germany	15.6	-1.7	11.1	6.7	-2.8	7.7
Greece	-111.5	-591.9	262.8	-1.3	-28.3	21.9
Ireland	-5.7	25.9	15.4	6.2	5.4	3.7
Italy	2.7	9.3	14.6	0.4	8.4	10.3
Netherlands	16.2	15.8	13.8	-3.9	4.8	15.7
Norway	8.7	10.9	13.9	-3.2	8.1	9.1
Portugal	-1.2	16.6	22.5	-15.9	0.9	5.4
Spain	-54.7	83.4	11.0	-32.4	18.1	-7.0
Sweden	1.3	5.4	10.3	16.2	5.8	6.7
Switzerland	3.1	13.1	13.0	10.5	3.5	12.5
UK	1.1	3.3	9.6	10.6	1.5	7.4
EuroStoxx - Eurozone	-4.0	13.7	12.7	-3.9	3.9	7.0
Stoxx ex UK - Europe ex UK	-1.7	13.0	12.9	0.1	4.4	8.3
Stoxx - Pan Europe	-0.7	9.5	11.7	3.6	3.4	8.0

Source: Citi Research & DataStream. \*Note: Country returns use MSCI index

Figure 20. Pan-European Country Ratings

Country	Price/Earnings				Net Dividend Yield			
	2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
Austria	32.4	13.2	11.7	9.7	2.65	2.86	3.48	3.96
Belgium	18.1	17.5	16.1	14.1	2.64	2.81	2.94	3.28
Denmark	26.1	20.4	17.3	14.1	1.40	1.71	2.12	2.60
Finland	14.0	21.1	15.2	11.9	4.65	4.76	3.78	3.95
France	12.2	12.5	11.1	10.0	3.68	3.81	4.02	4.43
Germany	12.8	11.1	11.3	10.1	3.22	3.43	3.34	3.59
Greece	25.3	-218.9	44.5	12.3	3.97	3.92	2.81	3.42
Ireland	18.8	19.9	15.8	13.7	1.80	1.91	2.01	2.09
Italy	11.7	11.4	10.4	9.1	3.79	3.81	4.13	4.55
Netherlands	15.9	13.7	11.8	10.4	2.79	2.68	2.81	3.25
Norway	13.1	12.1	10.9	9.5	4.41	4.27	4.62	5.04
Portugal	14.2	14.4	12.4	10.1	5.93	4.99	5.03	5.30
Spain	9.6	21.3	11.6	10.5	7.94	5.37	6.34	5.90
Sweden	15.1	14.9	14.1	12.8	3.23	3.75	3.97	4.23
Switzerland	16.6	16.1	14.2	12.6	2.95	3.25	3.37	3.79
UK	12.5	12.4	12.0	10.9	3.41	3.77	3.83	4.11
EuroStoxx - Eurozone	12.6	13.1	11.6	10.2	3.87	3.72	3.86	4.13
Stoxx ex UK - Europe ex UK	13.7	13.9	12.3	10.9	3.57	3.58	3.73	4.04
Stoxx - Pan Europe	13.3	13.3	12.2	10.9	3.52	3.64	3.76	4.07

Source: Citi Research & DataStream

Figure 21. UK Sector Weightings & Relative Returns

As at Close 05 Feb 2013	Mkt Cap £m	% of AllShare	% of Group	Relative return				
				1m	3m	12m	Qtd	Ytd
OIL & GAS (25)	303,736	16.1		0	-5	-13	0	0
Oil & Gas Producers (18)	291,238	15.4	96	0	-5	-13	0	0
Oil Equip, Serv and Distrib (7)	12,498	0.7	4	1	-6	-6	0	0
BASIC MATERIALS (38)	191,275	10.1		-4	-1	-22	-4	-4
Chemicals (8)	13,369	0.7	7	-3	-1	3	-6	-6
Forestry & Paper (1)	2,826	0.1	1	6	6	33	8	8
Industrial Metals (4)	1,645	0.1	1	-4	2	-46	1	1
Mining (25)	173,435	9.2	91	-4	-1	-23	-4	-4
INDUSTRIALS (109)	169,287	9.0		-1	-1	7	-1	-1
Construction & Materials (11)	13,916	0.7	8	-1	-2	-4	-2	-2
Aerospace (9)	38,722	2.0	23	-2	-1	6	0	0
General Industrials (6)	12,390	0.7	7	-1	1	13	-1	-1
Electronic & Electrical Equip (12)	8,817	0.5	5	2	8	13	1	1
Industrial Engineering (12)	17,735	0.9	10	-1	3	3	0	0
Industrial Transportation (8)	2,112	0.1	1	-3	-3	4	-5	-5
Support Services (51)	75,594	4.0	45	-1	-3	8	-1	-1
CONSUMER GOODS (35)	261,458	13.8		1	1	9	1	1
Automobiles & Parts (2)	4,051	0.2	2	1	6	0	1	1
Beverages (4)	78,548	4.2	30	2	2	16	1	1
Food Producers (11)	43,793	2.3	17	4	5	19	3	3
Household Gds & Home Cons (11)	39,870	2.1	15	3	4	19	2	2
Leisure Goods (1)	176	0.0	0	13	37	39	10	10
Personal Goods (4)	7,840	0.4	3	4	4	-10	5	5
Tobacco (2)	87,180	4.6	33	-1	-4	-2	-2	-2
HEALTH CARE (13)	132,670	7.0		1	-1	-4	1	1
Health Care Equip & Services (5)	7,436	0.4	6	-1	2	1	-3	-3
Pharmaceuticals & Biotech (8)	125,235	6.6	94	1	-1	-4	1	1
CONSUMER SERVICES (87)	182,089	9.6		0	1	10	-1	-1
Food & Drug Retailers (7)	42,192	2.2	23	-1	-3	-1	-2	-2
General Retailers (22)	30,317	1.6	17	-3	-4	13	-5	-5
Media (24)	54,311	2.9	30	1	3	11	1	1
Travel & Leisure (34)	55,268	2.9	30	2	5	17	2	2
TELECOMMUNICATIONS (8)	111,998	5.9		4	-1	-2	5	5
Fixed-Line Telecoms (6)	24,677	1.3	22	7	10	20	8	8
Mobile Telecoms (2)	87,321	4.6	78	4	-4	-7	4	4
UTILITIES (7)	70,488	3.7		-3	-5	6	-4	-4
Electricity (2)	16,013	0.8	23	-4	-7	7	-3	-3
Gas, Water & Multi-Utilities (5)	54,476	2.9	77	-3	-4	6	-4	-4
TECHNOLOGY (25)	30,936	1.6		7	11	25	7	7
Software & Computer Serv (15)	13,751	0.7	44	2	4	14	0	0
Technology Hardware & Equip (10)	17,185	0.9	56	11	17	34	12	12
TOTAL NON-FINANCIAL (347)	1,453,935	76.9		0	-1	-3	0	0
FINANCIALS (251)	437,277	23.1		0	4	11	1	1
Banks (6)	228,103	12.1	52	2	7	14	2	2
Non-Life Insurance (10)	17,341	0.9	4	-1	2	13	-2	-2
Life Insurance (9)	65,609	3.5	15	-4	1	10	-3	-3
Real Estate Investment Svs (23)	6,950	0.4	2	-1	0	9	-2	-2
REITS (16)	26,216	1.4	6	-4	-5	8	-5	-5
Financial Services (27)	34,262	1.8	8	3	6	13	5	5
Equity Inv. Instruments (160)	58,796	3.1	13	0	1	1	0	0
FTSE ALL SHARE (598)	1,891,212	100.0		0	0	0	0	0
FTSE 100 (100)	1,591,863	84.2		0	0	-1	0	0
Mid 250 (250)	255,804	13.5		1	2	8	0	0
Small Cap (248)	43,546	2.3		0	3	10	0	0

Source: Citi Research & DataStream

Figure 22. UK Relative Ratings

As at Close 05 Feb 2013	P/E Relative				Yield Relative			
	2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
OIL & GAS	76	75	81	84	105	109	110	106
Oil & Gas Producers	75	73	81	84	107	111	112	108
Oil Equip, Serv and Distrib	135	117	104	99	63	65	69	76
BASIC MATERIALS	69	104	97	90	75	76	79	82
Chemicals	132	125	133	133	65	67	66	68
Forestry & Paper	106	123	100	92	86	79	100	88
Industrial Metals	84	-307	-775	249	165	10	9	9
Mining	66	102	94	88	74	77	80	84
INDUSTRIALS	121	114	115	115	77	80	82	79
Construction & Materials	118	130	127	120	123	114	114	108
Aerospace	104	97	100	103	90	91	91	90
General Industrials	109	101	100	100	88	90	91	92
Electronic & Electrical Equip	137	131	133	134	45	46	48	49
Industrial Engineering	128	118	120	123	65	66	67	67
Industrial Transportation	93	102	100	99	112	107	105	101
Support Services	133	122	121	120	65	72	76	71
CONSUMER GOODS	148	131	130	129	83	85	90	91
Automobiles & Parts	89	77	74	72	71	81	87	89
Beverages	178	154	150	148	61	63	66	68
Food Producers	159	147	142	142	81	80	84	85
Household Gds & Home Cons	155	129	132	131	66	66	84	80
Personal Goods	193	164	158	152	48	53	56	59
Tobacco	123	112	113	113	115	118	120	123
HEALTH CARE	85	86	94	95	135	128	127	124
Health Care Equip & Services	123	118	111	106	45	59	64	68
Pharmaceuticals & Biotech	84	85	93	94	140	132	131	128
CONSUMER SERVICES	109	108	110	112	93	90	89	87
Food & Drug Retailers	91	92	103	115	118	115	109	101
General Retailers	107	104	104	104	88	86	86	86
Media	119	108	110	113	89	85	87	87
Travel & Leisure	117	130	119	114	79	79	78	78
TELECOMMUNICATIONS	92	89	94	97	184	161	144	136
Fixed-Line Telecoms	100	90	95	100	99	101	106	112
Mobile Telecoms	90	89	94	97	208	178	155	143
UTILITIES	112	104	112	118	147	147	143	138
Electricity	101	96	110	116	158	156	145	139
Gas, Water & Multi-Utilities	115	106	113	118	143	145	142	137
TECHNOLOGY	228	199	184	179	33	36	39	42
Software & Computer Serv	157	138	131	131	52	56	59	60
Technology Hardware & Equip	360	310	270	252	17	20	23	28
TOTAL NON-FINANCIAL	96	99	102	103	102	101	101	99
FINANCIALS	119	104	93	91	94	98	97	104
Banks	114	104	87	85	79	81	85	97
Non-Life Insurance	175	82	87	89	156	181	150	146
Life Insurance	96	86	88	89	119	124	123	121
Real Estate Investment Svs	266	192	201	180	43	49	51	54
REITS	183	179	188	193	108	106	103	99
Financial Services	159	135	106	98	112	114	106	108
FTSE ALL SHARE	100	100	100	100	100	100	100	100
FTSE 100	96	98	98	99	103	103	103	103
Mid 250	150	117	114	113	80	80	80	79
Small Cap	98	112	97	90	83	76	77	78

Source: Citi Research & DataStream

Figure 23. UK Earnings Growth

As at Close 05 Feb 2013	Earnings Growth %			Net Dividend Growth %		
	2012	2013E	2014E	2012	2013E	2014E
OIL & GAS	-1.8	-0.3	6.4	8.8	7.5	4.0
Oil & Gas Producers	-2.1	-0.9	6.0	8.8	7.4	3.6
Oil Equip, Serv and Distrib	11.0	21.9	16.8	8.1	13.5	18.8
BASIC MATERIALS	-36.6	16.7	19.0	6.6	10.8	12.2
Chemicals	1.7	1.6	10.2	7.8	4.7	11.7
Forestry & Paper	-17.1	33.8	19.1	-2.9	34.4	-5.7
Industrial Metals	-126.5	-57.0	-443.0	-93.7	1.0	0.2
Mining	-37.4	17.1	18.9	8.8	10.8	12.6
INDUSTRIALS	2.7	7.6	10.4	9.2	9.1	3.9
Construction & Materials	-12.7	10.7	17.6	-3.0	5.9	2.7
Aerospace	3.8	4.7	7.1	6.2	6.2	6.3
General Industrials	4.4	9.2	10.4	6.4	8.4	8.9
Electronic & Electrical Equip	1.1	7.2	9.5	9.5	9.1	10.1
Industrial Engineering	4.9	6.2	8.2	7.5	7.6	7.5
Industrial Transportation	-12.1	10.7	11.4	0.1	4.4	3.6
Support Services	5.0	9.0	11.8	16.9	12.5	0.6
CONSUMER GOODS	8.9	9.3	10.8	7.2	12.7	9.4
Automobiles & Parts	11.6	12.4	13.2	20.0	15.0	10.0
Beverages	11.1	11.9	11.9	8.9	11.0	10.5
Food Producers	4.2	12.3	10.2	4.1	11.1	9.6
Household Gds & Home Cons	16.0	6.3	10.7	5.1	35.4	3.1
Personal Goods	12.9	12.6	14.9	14.1	12.2	15.2
Tobacco	6.4	7.4	9.9	7.5	8.2	10.6
HEALTH CARE	-5.3	-0.1	9.5	-0.5	5.9	5.7
Health Care Equip & Services	0.7	14.9	15.2	37.7	14.9	14.9
Pharmaceuticals & Biotech	-5.5	-0.7	9.3	-1.2	5.7	5.4
CONSUMER SERVICES	-3.4	7.1	8.2	2.4	4.8	5.7
Food & Drug Retailers	-4.2	-3.1	-1.0	2.3	0.2	0.5
General Retailers	-1.0	8.5	10.5	2.6	6.8	7.9
Media	5.7	6.6	7.6	0.6	8.2	7.8
Travel & Leisure	-12.9	17.9	15.8	4.3	5.2	7.7
TELECOMMUNICATIONS	-0.4	2.4	6.9	-8.4	-4.7	2.2
Fixed-Line Telecoms	7.7	2.1	4.9	6.6	11.7	13.6
Mobile Telecoms	-2.4	2.5	7.4	-10.4	-7.3	0.0
UTILITIES	3.5	0.4	5.1	5.1	3.3	3.9
Electricity	1.6	-5.6	4.5	3.2	-0.8	2.8
Gas, Water & Multi-Utilities	4.1	2.3	5.3	5.7	4.6	4.2
TECHNOLOGY	10.3	17.7	13.5	14.3	15.1	16.7
Software & Computer Serv	9.6	13.8	10.5	12.2	11.5	10.8
Technology Hardware & Equip	11.6	24.7	18.5	19.4	23.3	29.0
TOTAL NON-FINANCIAL	-6.6	5.3	9.7	3.9	6.5	6.0
FINANCIALS	9.8	22.2	12.2	8.7	6.1	15.5
Banks	5.8	29.4	12.9	7.6	11.3	23.6
Non-Life Insurance	106.5	2.4	7.4	21.5	-12.0	5.4
Life Insurance	8.2	5.7	8.9	9.4	5.7	5.5
Real Estate Investment Svs	33.5	3.8	23.2	19.5	10.6	15.0
REITS	-1.4	3.7	7.4	3.2	3.3	4.0
Financial Services	12.8	38.8	18.7	6.6	-1.5	10.2
FTSE ALL SHARE	-3.7	8.6	10.3	4.8	6.4	7.9
FTSE 100	-6.0	8.1	10.0	5.0	6.5	7.9
Mid 250	23.6	11.0	11.7	4.3	6.1	7.2
Small Cap	-15.8	25.5	19.2	-3.4	7.9	9.5

Source: Citi Research & DataStream

Figure 24. UK Sector Ratings

As at Close 05 Feb 2013	Price/Earnings				Net Dividend Yield			
	2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
OIL & GAS	9.5	9.7	9.7	9.1	3.60	3.91	4.21	4.37
Oil & Gas Producers	9.3	9.5	9.6	9.1	3.66	3.98	4.28	4.43
Oil Equip, Serv and Distrib	16.8	15.2	12.5	10.7	2.15	2.33	2.64	3.14
BASIC MATERIALS	8.6	13.5	11.6	9.7	2.56	2.73	3.02	3.39
Chemicals	16.4	16.1	15.9	14.4	2.23	2.41	2.52	2.81
Forestry & Paper	13.2	15.9	11.9	10.0	2.93	2.85	3.83	3.61
Industrial Metals	10.5	-39.7	-92.4	26.9	5.65	0.36	0.36	0.36
Mining	8.2	13.2	11.3	9.5	2.54	2.77	3.07	3.46
INDUSTRIALS	15.1	14.7	13.7	12.4	2.61	2.85	3.11	3.23
Construction & Materials	14.7	16.8	15.2	12.9	4.22	4.09	4.34	4.45
Aerospace	13.0	12.5	11.9	11.2	3.08	3.27	3.48	3.70
General Industrials	13.6	13.1	12.0	10.8	3.02	3.21	3.48	3.79
Electronic & Electrical Equip	17.1	16.9	15.8	14.4	1.52	1.67	1.82	2.00
Industrial Engineering	16.0	15.3	14.4	13.3	2.21	2.37	2.55	2.74
Industrial Transportation	11.6	13.2	11.9	10.7	3.83	3.83	4.00	4.14
Support Services	16.6	15.8	14.5	13.0	2.21	2.58	2.90	2.92
CONSUMER GOODS	18.4	16.9	15.5	14.0	2.83	3.03	3.42	3.74
Automobiles & Parts	11.1	9.9	8.8	7.8	2.41	2.89	3.33	3.66
Beverages	22.2	20.0	17.8	16.0	2.08	2.27	2.51	2.78
Food Producers	19.8	19.1	17.0	15.4	2.76	2.88	3.20	3.50
Household Gds & Home Cons	19.3	16.7	15.7	14.2	2.25	2.36	3.20	3.30
Personal Goods	24.0	21.3	18.9	16.4	1.65	1.89	2.12	2.44
Tobacco	15.4	14.5	13.5	12.3	3.93	4.22	4.57	5.05
HEALTH CARE	10.6	11.2	11.2	10.2	4.60	4.57	4.85	5.12
Health Care Equip & Services	15.3	15.2	13.2	11.5	1.55	2.13	2.45	2.81
Pharmaceuticals & Biotech	10.4	11.0	11.1	10.2	4.77	4.72	4.98	5.25
CONSUMER SERVICES	13.6	14.0	13.1	12.1	3.16	3.24	3.39	3.59
Food & Drug Retailers	11.4	11.9	12.3	12.4	4.04	4.13	4.14	4.16
General Retailers	13.3	13.4	12.4	11.2	3.00	3.07	3.28	3.54
Media	14.8	14.0	13.2	12.2	3.04	3.05	3.30	3.56
Travel & Leisure	14.6	16.8	14.2	12.3	2.70	2.82	2.97	3.19
TELECOMMUNICATIONS	11.5	11.5	11.3	10.5	6.29	5.76	5.49	5.61
Fixed-Line Telecoms	12.5	11.6	11.4	10.8	3.40	3.62	4.04	4.59
Mobile Telecoms	11.2	11.5	11.2	10.4	7.11	6.37	5.90	5.90
UTILITIES	13.9	13.4	13.4	12.7	5.02	5.27	5.44	5.66
Electricity	12.6	12.4	13.1	12.6	5.42	5.59	5.54	5.70
Gas, Water & Multi-Utilities	14.4	13.8	13.5	12.8	4.90	5.18	5.41	5.64
TECHNOLOGY	28.5	25.8	21.9	19.3	1.13	1.29	1.49	1.73
Software & Computer Serv	19.5	17.8	15.7	14.2	1.79	2.01	2.24	2.48
Technology Hardware & Equip	44.9	40.2	32.2	27.2	0.60	0.71	0.88	1.13
TOTAL NON-FINANCIAL	12.0	12.8	12.2	11.1	3.47	3.60	3.84	4.07
FINANCIALS	14.9	13.5	11.1	9.9	3.21	3.49	3.71	4.28
Banks	14.2	13.4	10.4	9.2	2.70	2.90	3.23	3.99
Non-Life Insurance	21.9	10.6	10.3	9.6	5.34	6.49	5.72	6.02
Life Insurance	12.0	11.1	10.5	9.6	4.07	4.45	4.71	4.96
Real Estate Investment Svs	33.2	24.9	24.0	19.5	1.47	1.75	1.94	2.23
REITS	22.9	23.2	22.4	20.8	3.69	3.81	3.93	4.09
Financial Services	19.8	17.5	12.6	10.6	3.83	4.08	4.02	4.43
FTSE ALL SHARE	12.5	13.0	11.9	10.8	3.42	3.58	3.81	4.11
FTSE 100	11.9	12.7	11.7	10.7	3.52	3.69	3.93	4.24
Mid 250	18.7	15.1	13.6	12.2	2.75	2.87	3.04	3.26
Small Cap	12.2	14.5	11.6	9.7	2.82	2.73	2.94	3.22

Source: Citi Research & DataStream

Figure 25. Companies Mentioned

Stock	RIC	Price	Rating	Currency	Stock	RIC	Price	Rating	Currency	Stock	RIC	Price	Rating	Currency
ABB	ABBN.VX	19.23	1	CHF	E.ON	EONGn.D E	12.615	3	EUR	Richemont	CFR.VX	74.35	1	CHF
ABInBev	ABI.BR	64.89	1	EUR	EADS	EAD.PA	34.835	1	EUR	Rio Tinto	RIO.L	36.455	1	GBP
Ahold	AHLN.AS	10.62	1	EUR	Electrolux	ELUXb.ST	155	3	SEK	Roche	ROG.VX	200.4	2	CHF
Air Liquide	AIRP.PA	91.89	2	EUR	Elisa	ELI1V.HE	16.14	2	EUR	RSA Ins	RSA.L	1.31025	2	GBP
Akzo Nobel	AKZO.AS	50.48	2	EUR	Enel	ENEI.MI	2.968	1	EUR	RWE	RWEG.D E	27.124	3	EUR
Allianz	ALVG.DE	102.8	1	EUR	Eni	ENI.MI	18.24	1	EUR	SABMiller	SAB.L	31.895	1	GBP
Alstom	ALSO.PA	32.475	1	EUR	Ericsson	ERICb.ST	77.35	1	SEK	Sanofi	SASY.PA	67.74	1	EUR
Anglo American	AAL.L	19.535	2	GBP	Fortum	FUM1V.H E	14.2	2	EUR	Scania	SCVb.ST	135	3	SEK
AstraZeneca	AZN.L	30.43	2	GBP	France Telco	FTE.PA	8.049	3	EUR	Schneider Electric	SCHN.PA	55	3	EUR
Atlas Copco	ATCOa.S T	181.8	3	SEK	Fresenius SE	FREG.DE	91.19	1	EUR	SE Banken AB	SEBa.ST	63.5	3	SEK
B Sky B	BSY.L	8.225	1	GBP	GlaxoSmithKline	GSK.L	14.3987	1	GBP	SES	SESFd.P A	22.74	2	EUR
BAE Systems	BAES.L	3.361	2	GBP	HSBC	HSBA.L	7.08496 9	2	GBP	SHB	SHBa.ST	255.1	2	SEK
Barclays	BARC.L	2.95118	1	GBP	Imperial Tobacco	IMT.L	23.5779 5	2	GBP	Siemens	SIEGn.DE	77.22	1	EUR
BASF	BASFn.DE	72.37	2	EUR	ITV	ITV.L	1.175	1	GBP	SKF	SKFb.ST	157.3	3	SEK
Bayer	BAYGn.D E	71.37	1	EUR	Johnson Matthey	JMAT.L	22.5	2	GBP	Smiths Grp	SMIN.L	12.24	3	GBP
BHP Billiton	BLT.L	21.63	1	GBP	Linde	LING.DE	129.65	1	EUR	Statoil	STL.OL	146.1	2	NOK
BMW	BMWG.D E	71.89	2	EUR	LVMH	LVMH.PA	132.6	1	EUR	Swedbank	SWEDa.S T	151.9	2	SEK
BNP Paribas	BNPP.PA	44.905	1	EUR	Morrison (Wm)	MRW.L	2.506	2	GBP	Swedish Match	SWMA.ST	241.7	2	SEK
BP	BP.L	4.61760 9	2	GBP	Munich Re	MUVGn.D E	136.1	2	EUR	Swiss Re	SRENH.V X	70	1	CHF
Brit Am Tobacco	BATS.L	32.675	1	GBP	National Grid	NG.L	6.91938	2	GBP	Swisscom	SCMN.VX	402.5	2	CHF
BT Grp	BT.L	2.72	2	GBP	Nestle	NESN.VX	63.8	2	CHF	Tdc	TDC.CO	41.4	2	DKK
Centrica	CNA.L	3.449	1	GBP	Nordea	NDA1V.H E	8.45	2	EUR	Telefonica	TEF.MC	10.16	2	EUR
Compass Grp	CPG.L	7.77	1	GBP	Novartis	NOVN.VX	62.45	1	CHF	Telenor	TEL.OL	118.8	2	NOK
Credit Suisse	CSGN.VX	26.73	1	CHF	Pearson	PSON.L	12.1196	2	GBP	TeliaSonera	TLNS.ST	43.69	3	SEK
Daimler	DAIGn.DE	44.02	1	EUR	Pernod-Ricard	PERP.PA	92.08	1	EUR	Tesco	TSCOL	3.65268	3	GBP
Danone	DANO.PA	50.8	1	EUR	Philips	PHG.AS	22.86	3	EUR	Thales	TCFP.PA	26.765	1	EUR
Deutsche Post	DPWGn.D E	16.99	1	EUR	PPR	PRTP.PA	157.85	1	EUR	Total	TOTF.PA	39.075	2	EUR
Deutsche Telekom	DTEGn.D E	8.748	2	EUR	RD Shell Class A	RDSa.L	21.88	2	GBP	Unilever NV	UNc.AS	29.07	2	EUR
DnB	DNB.OL	81.3	2	NOK	Reed Elsevier	ELSN.AS	11.505	1	EUR	Vodafone	VOD.L	1.736	2	GBP
DSM	DSMN.AS	45.08	1	EUR	Repsol	REP.MC	16.11	1	EUR					

Source: Citi Research. Prices as at 6<sup>th</sup> February 2013 Close

## **Notes**

## Notes

## Appendix A-1

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